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October 20, 2010

Ms. Cynthia Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

228023

Re: Montreal, Maine & Atlantic Railway, Ltd -- Discontinuance of
Service and Abandonment -- in Aroostook and Penobscot
Counties, Maine, STB Docket No. AB 1043 (Sub-No. 1)

Dear Ms. Brown:

Montréal, Maine & Atlantic Railway, Ltd. ("MMA") and the State of Maine, acting by and through its Department of Transportation (the "State"), are pleased to notify the Board and interested parties that they have reached an agreement as set forth in the Term Sheet attached hereto, pursuant to which MMA will sell the lines that are the subject of the abandonment application in these proceedings to the State. MMA and the State will begin the preparation of a definitive purchase and sale agreement and take appropriate actions in order to satisfy the other preconditions to a closing of the sale and purchase transaction set forth in the Term Sheet. Furthermore, in the near future once certain conditions are satisfied, MMA and the State intend to formally request the Board to approve the settlement and grant the relief described in the attached Term Sheet.

Pending further advice from and filings by MMA or the State, MMA and the State respectfully request the Board to defer any further consideration or action with respect to the abandonment application.

Sincerely,



Linda J. Morgan

LJM/vsf
Enclosure

TERM SHEET

This Term Sheet by and between the State of Maine, acting by and through its Department of Transportation (the "State"), and Montréal, Maine & Atlantic Railway, Ltd. ("MMA");

WHEREAS, MMA has filed an application with the Surface Transportation Board ("STB") for authority to abandon and discontinue service on approximately 233 miles of rail lines located in Aroostook and Penobscot Counties, Maine (the "Lines"); and

WHEREAS, the State wishes to purchase, and MMA wishes to sell, the Lines in order to preserve rail service; and

WHEREAS, MMA and the State have reached agreement on the terms and conditions, as set forth below in this Term Sheet, of a purchase and sale transaction pursuant to which MMA would sell the Lines to the State; and

WHEREAS, this Term Sheet accurately represents the intentions of the parties to consummate a purchase and sale transaction on the terms and conditions set forth below and to proceed in good faith to implement the actions described below.

1. Purchase and Sale. MMA shall sell and the State shall purchase the Lines in accordance with the terms and conditions set forth below and a definitive purchase and sale agreement to be negotiated and executed by the parties.

2. Purchase Price. The purchase price for the Lines shall be \$21.1 million. The amount payable by the State to MMA at the closing in immediately available funds shall be \$20.1 million. The \$20.1 million in immediately available funds is to be comprised of \$19.1 million from available State resources set aside for this transaction and \$1 million from outside third party(ies) to be provided to the State prior to closing. The balance of the purchase price shall be in the form of the State receiving a credit in the amount of \$1.0 million in partial satisfaction of a claim of the State against MMA, as described in Section 5 below.

3. Closing. The closing shall occur, subject to satisfaction of the conditions precedent set forth in Section 7 below, on a mutually acceptable date that is no later than 10 business days after the satisfaction or waiver of the last condition precedent to be satisfied or waived. MMA shall continue to provide rail service on the Lines until the later of December 31, 2010 or the date on which a rail carrier selected by the State to operate the Lines (the "Short Line") is ready to provide such service. The terms and conditions of any such service by MMA after the closing shall be as set forth in the purchase and sale agreement.

4. Access Conditions.

(a) As of the closing, MMA shall grant to the Short Line permanent, overhead trackage rights, exercisable in the discretion of the Short Line, pursuant to a definitive trackage rights agreement that shall include the terms and conditions set forth in this Section 4 and such other terms and conditions as are customary in the industry, between (i) the end of the Lines at Madawaska and the connection of the MMA line with Canadian National Railway at St. Leonard, New Brunswick and (ii) the end of the Lines at Millinocket and the connection of the MMA line with Eastern Maine Railway at Brownville Junction.

(b) The State shall require the Short Line to grant to MMA permanent, overhead trackage rights, exercisable in the discretion of MMA, pursuant to a definitive trackage rights agreement that shall include the terms and conditions set forth in this Section 4 and such other terms and conditions as are customary in the industry, between the ends of the Lines in Madawaska and Millinocket.

(c) The trackage rights shall be binding upon any successors of MMA or the Short Line. The charge for the exercise of trackage rights, whether by MMA or the Short Line, shall be \$0.30 per car mile, loaded and empty.

(d) Beginning as of the date on which the Short Line commences its operations, MMA shall provide interchange tracks and facilities on its property in order to provide for the interchange of traffic in the event that the trackage rights are exercised. If and to the extent that additional interchange tracks or facilities are required, in the sole discretion of MMA, in the future to accommodate the interchange of traffic between MMA and the Short Line, or connecting carriers and Short Line, MMA shall, at its sole expense, construct such additional tracks or facilities.

(e) The trackage rights provided to the Short Line herein may be used only for the interchange or run-through of traffic between the Short Line and the Canadian National Railway at St. Leonard and for the interchange or run-through of traffic between the Short Line and the Eastern Maine Railway at Brownville Jct. and shall not permit the Short Line to serve industries served or accessed by MMA at any points at or between the end points of such trackage rights. The Short Line may continue operating onto the tracks of connecting carriers at St. Leonard and Brownville Junction pursuant to agreements between the Short Line and connecting carriers without interchanging its cars or train to the connecting carriers. The trackage rights provided to MMA may be used by MMA only for through movement by MMA between the end of the Lines at Millinocket and the end of the Lines at Madawaska and shall not permit MMA to serve industries served or accessed by the Short Line at any points between, but not including, the end points of such trackage rights. Nothing in this Term Sheet shall permit, or be construed to permit, the Short Line to operate to or provide service at the customer facility at St. Leonard.

(f) The granting and exercise of trackage rights pursuant to this Section 4 shall be without prejudice to the right of MMA and the Short Line or the State to agree upon additional, supplemental or alternative arrangements to exchange traffic between them on such terms and conditions as they may agree, including without limitation haulage and joint rates and divisions for through traffic.

5. Rail Funding Agreements. The claim of the State against MMA pursuant to certain Rail Funding Agreements, arising as a result of the filing of the abandonment application by MMA, shall be resolved by MMA recognizing a credit, in the amount of \$1.0 million, that shall be applied by the State against the purchase price. The total maximum amount of any future claim that the State may have against MMA pursuant to such Rail Funding Agreements, after application of the \$1.0 million credit against amounts claimed pursuant to the Rail Funding Agreements, beginning with the most recent Rail Funding Agreements, shall be as provided in such Rail Funding Agreements. Except to the extent modified as provided in this Section 5, the Rail Funding Agreements shall remain in effect in accordance with their terms and conditions. MMA shall cooperate in the completion of all documentation required under the Rail Funding Agreements. Upon the execution of this Term Sheet by the parties, and the submission of necessary documentation, the State shall provide reimbursement to MMA up to the available amount remaining under the most recent Rail Funding Agreement (approximately \$700,000), for purposes of rehabilitation of lines of MMA, other than the Lines.

6. Utility Use. The parties recognize the potential utility and value of the Lines and other rail lines of MMA for purposes of the transmission of electricity, communications and other corridor uses (collectively, "Utility Uses"). Effective from and after the date of closing, the parties shall cooperate with one another in order to develop and realize value from such Utility Uses. Either the State or MMA shall have the right to propose and negotiate Utility Use transactions that involve both the Lines and other lines of MMA, subject to the terms and conditions of this Section 6, as well as applicable Maine law governing the use of State-owned property. Any such transaction shall (a) not result in any interference with rail operations and shall require the other party in any such transaction to indemnify MMA, the State and the State's rail operator in the event of any such interference, (b) afford the non-proposing party the right to review and approve the transaction, which approval may not be unreasonably conditioned, delayed or withheld, (c) require the non-proposing party to take all reasonable actions to implement an approved transaction, such as the execution of leases, licenses, or easements and other documents, (d) provide that any payments in respect of a Utility Use shall be prorated between the State and MMA, after deduction of a reasonable fee payable to the proposer for originating and negotiating the transaction, on the basis of the ratio of the number of miles of the Lines and the number of miles of other lines of MMA involved in the transaction, and (e) provide for the payment of a reasonable fee to the proposer to be negotiated and included in the purchase and sale agreement. MMA shall invest all amounts generated by Utility Uses in its railroad lines in Maine, and, to the extent permitted by applicable law, the State shall invest all amounts generated by the Utility Uses in railroad lines in Maine.

7. Conditions Precedent to Closing. The obligations of the parties to close shall be subject to the satisfaction or waiver of the following conditions precedent: (a) the mortgage lien of the Federal Railroad Administration ("FRA") on the Lines shall have been released; (b) MMA and the FRA shall have reached an agreement, which is satisfactory to MMA, concerning the adjustment of certain terms and conditions of the loan agreement between MMA and FRA, including without limitation the use by MMA of proceeds from the sale of the Lines; (c) a final order shall have been entered by the STB authorizing the abandonment of the Lines, subject only to customary conditions for abandonment orders, permitting the consummation of the abandonment and the salvaging of the Lines if the closing does not occur, recognizing and adopting the terms and conditions set forth in this Term Sheet, determining that the State shall not become a rail carrier as a result of the purchase of the Lines and recognizing the offer of financial assistance submitted by the State, as modified by the terms and conditions of this Term Sheet and the purchase and sale agreement; and (d) mutually agreeable closing documents, including a purchase and sale agreement, with an agreed form of trackage rights agreement as an exhibit, shall have been executed by the parties.

8. Further Actions. Promptly following the execution of this Term Sheet by the President and Chief Executive Officer of MMA and the Commissioner of the Department of Transportation of the State of Maine, the State and MMA shall jointly file a copy of this Term Sheet with the STB and request the STB to suspend the abandonment proceedings and to defer any decision with respect to the abandonment application until further advice from either party. At the same time, the parties shall begin to draft definitive agreements to implement the terms and conditions of this Term Sheet, including without limitation a purchase and sale agreement and trackage rights agreements, and the State shall, either directly or with the assistance of the State's congressional delegation, assist MMA in requesting the FRA to approve the proposed transaction, grant the required release of lien, and give MMA's requested adjustments prompt reasonable consideration. Promptly after both the State and MMA are satisfied that such approvals or actions of the FRA will be forthcoming, the State shall advise the STB that, subject to the execution of a purchase and sale agreement, the State is withdrawing its opposition to the abandonment and shall recommend to other parties opposing the abandonment that they also withdraw their opposition, and the parties shall file a pleading with the STB in which they jointly request the issuance of a decision consistent with the relief and action by the STB described in Section 7(c) above, at such time as the parties confirm to the Board that the purchase and sale agreement has been executed. (The parties acknowledge that the procedures set forth above are in contemplation of having the STB issue a decision as promptly as possible after the FRA approvals and execution of the purchase and sale agreement, and the parties may modify such requests based on any procedural advice received jointly from the STB.) The State shall prepare and issue a request for proposals to select a Short Line to operate the Lines so that the Short Line will be prepared to assume operations on the Lines as promptly as practicable after December 31, 2010.

9. Execution and Effective Date. This Term Sheet shall be effective on the date on which it has been signed by both parties. The Term Sheet may be executed in two counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. Any facsimile or electronically transmitted copies hereof or signature hereon shall, for all purposes, be deemed an original.

State of Maine, acting by and
through the Maine Department of
Transportation

Dated: Oct. 19, 2010



David Cole
Commissioner of Transportation

Montréal, Maine & Atlantic
Railway, Ltd.

Dated: _____

Robert C. Grindrod
President and Chief Executive
Officer

Oct 18 2010 5:49PM

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JAMES E HOWARD LLC

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9. Execution and Effective Date. This Term Sheet shall be effective on the date on which it has been signed by both parties. The Term Sheet may be executed in two counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. Any facsimile or electronically transmitted copies hereof or signature hereon shall, for all purposes, be deemed an original.

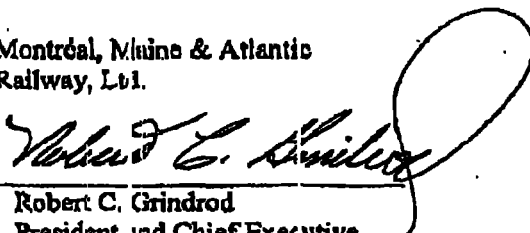
State of Maine, acting by and
through the Maine Department of
Transportation

Dated: _____

David Cole
Commissioner of Transportation

Montréal, Maine & Atlantic
Railway, Ltd.

Dated: OCTOBER 18, 2010



Robert C. Grindrod
President and Chief Executive
Officer